

NEWS BULLETIN

FROM:

**FINANCIAL
RELATIONS BOARD**

RE: **Headwaters Incorporated**
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FOR IMMEDIATE RELEASE:

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HEADWATERS INCORPORATED ANNOUNCES COAL-TO-LIQUIDS AGREEMENTS

SOUTH JORDAN, UTAH, August 9, 2005 (NYSE: HW) – HEADWATERS

INCORPORATED announced today that it has completed two non-binding Memoranda of Understanding (“MOUs”) linked to potential coal-to-liquid fuels projects in Arizona and North Dakota.

Parties to the Arizona project include Headwaters and the Hopi Tribe. Parties to the North Dakota project include Headwaters, Great River Energy, North American Coal Corporation and Falkirk Mining Company.

Each MOU anticipates Headwaters will act as the principal developer of an indirect coal liquefaction plant that will produce approximately 10,000 barrels per day of ultra clean diesel and other liquid fuels, as well as electricity from an IGCC power station. Plant expansions could increase output up to 50,000 barrels per day of liquid fuel production. The other parties to the MOUs will participate as equity partners in the project development and will contribute coal resources sufficient to serve the lives of the respective plants.

Development of each project will be subject to negotiation of definitive agreements, permitting, Board of Directors’ approvals, project financing and other conditions. Headwaters estimates that design and construction of a facility, including the permitting, will take between five and seven years. Although the projects are major undertakings in their preliminary stages, Headwaters believes that the demand for liquid fuels today and over the next 20 years will drive the continued development of America’s coal assets.

“We are excited to make progress on this ambitious initiative,” said Kirk Benson, Headwaters Chairman and CEO. “In a world of rising oil prices and ever increasing environmental concerns, coal-to-liquids projects provide an attractive option for meeting our growing transportation fuel needs. Headwaters is uniquely positioned to lead the deployment of these technologies in the United States.”

Headwaters has deep roots in coal chemistry and value added coal processes, including coal-to-liquids processes. At its New Jersey research center, Headwaters has developed expertise in both direct and indirect coal liquefaction. Primarily because of capital cost considerations, the initial coal-to-liquids facilities in the United States are expected to be indirect liquefaction projects. Indirect coal liquefaction technologies initially gasify coal and then convert the coal-derived syngas into ultra clean diesel and other fuels and petrochemicals using Fischer Tropsch technology. There are several technology alternatives for this approach to coal-to-liquids projects. Headwaters has also developed direct coal liquefaction technology that is currently being deployed or studied for deployment in China, India and the Philippines. Headwaters is also active in the traditional oil refining industry as it moves toward commercial testing of its HC3 heavy oil upgrading technology.

From a business development perspective, Headwaters is a leader in creating value through innovative advancements in the utilization of natural resources. Enhancing the value of coal, the Company has established market leading positions in providing pre-combustion and post-combustion products and services. For instance:

- Headwaters Energy Services is the largest supplier of technology and reagents to the coal-based synfuel industry and is currently deploying new pre-combustion clean coal technologies, including dry coal cleaning and, in cooperation with Great River Energy, lignite fuel enhancement (coal drying).
- Headwaters Resources is the largest manager and marketer of coal combustion products, such as fly ash, which are created by coal-fueled power plants when coal is burned.
- Headwaters Construction Materials enjoys leading market positions in several building materials sectors. Coal combustion products are utilized in many of these products.

“The emerging alternative fuels market presents Headwaters with an excellent opportunity to continue to fulfill our Company mission,” said Benson. “We have the opportunity to take an under-utilized resource – America’s abundant supply of coal – and use it in an environmentally responsible manner for the domestic production of vital transportation fuels and electricity.”

Headwaters previously announced that its initial project as an alternative fuels production facility developer would be a 50 million gallon per year ethanol production facility in North Dakota. Development of that unique facility, to be located on land adjacent to Great River Energy’s Coal Creek power plant, is continuing in partnership with Great River Energy. The facility – to be named Blue Flint Ethanol – will be designed to access its steam, water and other ancillary services from the adjacent coal fueled power plant.

“Ethanol production offers attractive synergies for our energy business,” said Benson. “Headwaters is already a leading supplier of pre-combustion and post-combustion services to coal-based electric utilities nationwide. Advantages related to co-locating ethanol production with power plants could be substantial. Furthermore, as we move our coal-to-liquids program forward in the United States, access to alternative fuels markets will be important. A position in the existing ethanol industry will help us build our alternative fuels capabilities.”

About Headwaters Incorporated

Headwaters Incorporated is a world leader in creating value through innovative advancements in the utilization of natural resources. Headwaters is a diversified growth company providing products, technologies and services to the energy, construction and home improvement industries. Through its alternative energy, coal combustion products, and building products businesses, the Company earns a growing revenue stream that provides the capital needed to expand and acquire synergistic new business opportunities.

Forward Looking Statements

Certain statements contained in this report are forward-looking statements within the meaning of federal securities laws and Headwaters intends that such forward-looking statements be subject to the safe-harbor created thereby.

Forward-looking statements include Headwaters' expectations as to the managing and marketing of coal combustion products, the production and marketing of building materials and products, the licensing of technology and chemical sales to alternative fuel facilities, the receipt of product sales, license fees and royalty revenues, the development, commercialization, and financing of new technologies and other strategic business opportunities and acquisitions, and other information about Headwaters. Such statements that are not purely historical by nature, including those statements regarding Headwaters' future business plans, the operation of facilities, the availability of tax credits, the availability of feedstocks, and the marketability of the coal combustion products, building products, and synthetic fuel, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Actual results may vary materially from such expectations. Words such as "expects," "anticipates," "targets," "goals," "projects," "believes," "seeks," "estimates," variations of such words, and similar expressions are intended to identify such forward-looking statements. Any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances, are forward-looking.

In addition to matters affecting the coal combustion product, alternative fuel, and building products industries or the economy generally, factors which could cause actual results to differ from expectations stated in forward-looking statements include, among others, the factors described in the captions entitled "Forward-looking Statements" and "Risk Factors" in Item 7 in Headwaters' Annual Report on Form 10-K for the fiscal year ended September 30, 2004, Quarterly Reports on Form 10-Q, and other periodic filings and prospectuses.

Although Headwaters believes that its expectations are based on reasonable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that our results of operations will not be adversely affected by such factors. Unless legally required, we undertake no obligation to revise or update any forward-looking statements for any reason. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report.

Our internet address is www.headwaters.com. There we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our reports can be accessed through the investor relations section of our web site.